

PRI-102



Corres. and Mail  
**BOX AF**

**RESPONSE UNDER 37 C.F.R. 1.116**  
**EXPEDITED PROCEDURE**  
**EXAMINING GROUP NO.: 3628**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re the Application of:

SANKARAN ET AL.

Serial No.: 09/501,154

Filed: February 9, 2000

For: METHOD AND SYSTEM FOR  
INTERACTIVE INITIAL  
OFFERING OF MULTI-CLASS  
FINACIAL INSTRUMENTS

Art Unit: 3628

Examiner: NGUYEN, NGA B.

**REQUEST FOR RECONSIDERATION**

Mail Stop AF  
Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

Sir:

Applicants respectfully request reconsideration of the final rejection of the claims as set forth in the final Office Action mailed October 13, 2004.

Applicants' representative thanks Examiners Nguyen and Sough for the courtesies extended during the personal interview conducted November 30, 2004. The substance of the interview is incorporated into the following remarks.

Claims 1 and 3-30 stand rejected under 35 U.S.C. §103(a) as being unpatentable over Hambrecht et al. in view of the disclosed prior art at page 8, line 5 to page 9, line 10 of the present application. This ground of rejection is respectfully traversed.

Applicants have explained the principles of the claimed invention numerous times, yet it is apparent the Patent Office still does not appreciate the nature of the presently claimed invention, nor the differences between the claimed invention and what the prior art discloses.

Referring to claim 1, for example, the present invention is directed to a system for offering multi-class financial instruments. A multi-class instrument is a specialized financial instrument, an example of which is shown in Figure 1 of the present application. That Figure depicts three separate boxes representing three different financial offerings: underlying collateral (FNMA Mortgage) and two different classes (Class 1 and Class 2) of a multi-class instrument. Class 1 and Class 2 have expected maturities and face values that are different from each other and from the FNMA Mortgage underlying collateral, and are, effectively, “funded” by the underlying collateral (“at least two classes of the plurality of classes are different from each other and separately saleable” and “wherein the underlying collateral has a form different from either of the at least two classes”). Indeed, the different classes will often have very different risk/reward characteristics.

Understanding and appreciating what a “multi-class instrument” is, is of extreme importance in this case. During the interview, it became clear that even after the multiple interviews and responses filed in this case, a fundamental understanding of this term by the Examiner in this case is lacking. Taking Figure 1 again as an Example, the FNMA Mortgage underlying collateral represents a predetermined cash flow. This underlying collateral will pay to the owner of that collateral a certain income stream, e.g., periodically. Classes 1 and 2 also represent predetermined cash flows to investors. The latter cash flows (Classes 1 and 2),

however, are completely different from the underlying cash flow (the collateral). This is the reason why the “at least two classes of the plurality of classes are different from each other and separately saleable” and “wherein the underlying collateral has a form different from either of the at least two classes.” Each of these investment vehicles is different from one another.

Claim 1 further recites a structure database that stores a structure representative of a plurality of classes of the multi-class instrument. So, for example, the structure database might store the structures of Class 1 and Class 2 of Figure 1.

Claim 1 also requires, among other things, that the system operates to (i) display class information related, respectively, to each class of the multi-class instrument, (ii) receive bid information, and (iii) modify the structure database in response to the bid information and display updated class information.

It is important to understand that Applicants do not claim to have invented multi-class instruments. Indeed, the explanation of Figure 1 is in the background section of the present application that describes the state of the art at the time this application was filed.

Applicants also do not claim to have invented basic electronic auctions, of which Halbert et al., Woolston, Godin et al. (previously applied references), and now Hambrecht et al. are all examples.

On the other hand, Applicants do claim to have invented a unique and specialized electronic auction methodology for selling multi-class instruments in an effort to overcome the difficulties in prior art methods of selling such financial instruments. This invention, recited very clearly in the claims pending in this case, is not described in the admitted prior art nor

suggested by the applied Hambrecht et al. reference, taken singly or in combination with each other.

Applicants respectfully remind the Examiner that the burden of establishing a *prima facie* case of obviousness lies with the Patent Office. In re Fine, 5 U.S.P.Q.2d 1596 (Fed. Cir. 1988). To establish a *prima facie* case of obviousness, there must be (1) some suggestion or motivation (either in the references themselves or in the knowledge generally available to one of ordinary skill in the art) to modify the reference or to combine reference teachings to achieve the claimed invention, and (2) the prior art must teach or suggest all the claim limitations. MPEP §2143. Also simply because the references could be combined, does not mean they should be. MPEP §2143.01, citing In re Mills, 16 U.S.P.Q.2d 1430 (Fed. Cir. 1990).

#### **I. THERE IS NO MOTIVATION TO COMBINE THE CITED PRIOR ART TEACHINGS**

In rejecting the claims of the present application in this latest Office Action, the Examiner has simply taken the Hambrecht et al. reference and combined the teachings thereof with Applicants' explanation of what a multi-class instrument is and asserted that the claims, which recite a specialized electronic auction for selling multi-class instruments, are obvious. The only alleged motivation for combining the different teachings of the prior art being relied upon is that the underwriter of Hambrecht et al. would want to maximize profit. See, e.g., Office Action at p. 5.

The Hambrecht et al. reference is, without question, directed to an auction for stocks - a single-class instrument. There is no suggestion whatsoever in this reference of the notion of cash flows of a multi-class instrument. As such, one of ordinary skill reading Hambrecht et al. would

have no reason to contemplate how, or even if, the system of Hambrecht et al. could be used to sell multi-class instruments. The Hambrecht et al. reference does not teach anything about allocating cash flows, it merely teaches a way of selling shares of stock.

According to Hambrecht et al., a so-called (and well-known) Dutch auction is implemented to sell a given company's stock. See Col. 7, lines 53-62. A Dutch auction is one where multiple buyers place bids comprising price and amount of shares they are willing to buy for that price. The bids are ranked from highest price to lowest price and a "prescribed" price (or clearing price), which is the single price at which all offered shares can be sold, is determined. See Col. 7, lines 55-62. Those bidders who bid above the prescribed price are sold the number of shares they bid for (at the prescribed price), and those bidders who bid for shares at exactly the prescribed price are allotted shares on a pro-rata basis. See, Col. 7, lines 62-65.

Moreover, in Hambrecht et al., investors bid on a given stock (price and amount) and the underwriter then agrees to purchase precisely the same stock to sell/provide to winning bidders. While Hambrecht may have the ability to conduct simultaneous auctions on stocks by different issuers (e.g., IBM., Citicorp, Kellogg); the stock price of one company has no impact on the price bid of another company. There is also no concept of collateralization ("wherein the underlying collateral is used to collateralize both of the at least two classes").

It is also abundantly clear that the present application discloses nothing about Dutch or Vickery type auctions or even selling single class instruments (like stock), except in the background section. And, again, the Hambrecht et al. reference discloses nothing having to do with multi-class instruments that are collateralized by underlying collateral having a different

form from the multi-class instruments. With these basic facts in hand, there would, in fact, be no motivation for one of ordinary skill to combine the teachings of Hambrecht et al. with the teachings of Applicants' application's background section that explains the state of the prior art with respect to multi-class instruments. The asserted motivation of "maximizing profit" is merely a "truism" that is applicable to almost any field of technology. "Maximizing profit" is no substitute for actual motivation derived from the references themselves or knowledge generally available to one of ordinary skill in the art. Everybody in the business world, especially those in the financial markets world, wants to maximize profits, but it does not follow that one of ordinary skill would be motivated to combine prior art having completely different teachings (having essentially no overlapping concepts), as the Examiner wants to suggest. Simply because the references could be combined, does not mean they should be. This is fundamental to an obvious analysis. In fact, as of the date of the filing of the patent, no auction methodology equivalent to the Invention existed.

**II. EVEN IF THE CITED PRIOR ART TEACHINGS WERE  
COMBINED AS SUGGESTED, THE CLAIMED INVENTION  
WOULD NOT RESULT**

In any event, even if the prior art were combined as suggested by the Examiner, the claimed invention would not result.

The Examiner takes the position that the claimed invention would result if the system of Hambrecht et al. were used to offer multi-class instruments. Such a system would not, however, operate consistently with several of the limitations in the claims of the present application. Specifically, such a combination system would offer separately (not in conjunction with one

another) two different classes of a multi-class instrument, and offer them in the context of a Dutch auction. Each auction would occur separately without any interaction between the two. Note that there is nothing in Hambrecht et al. that teaches adjusting auction parameters in a first auction in view of, or in response to, activity (e.g., bids) that have been received in a second auction. That is, Hambrecht et al. does not teach a fundamental feature of the present invention: when bids are received from investors, the structure database, which stores the structures of the respective multi-class instruments, is modified and, thereafter, updated (i.e., different or new) classes are re-presented to bidders. In other words, in the claimed invention, the multi-class instruments themselves are being modified "on the fly." In Hambrecht et al., bidders are never presented with new (updated) offers in the course of a given auction. Bidders in Hambrecht et al. bid once, and then wait to learn whether their bid has been accepted for one and only one type of stock in a given auction. See, e.g., Figs. 12A and 12B of Hambrecht et al.

The following provides an example, and the absurd result that flows, if a multi-class instrument were sold in accordance with the Hambrecht et al. reference:

Let us use Hambrecht to auction a simple two-class Credit Linked Note.

- a. The two classes share the cash flows from a five-year U. S. Treasury note (the underlying collateral)
- b. The holders of Class 1 are entitled to receive all the interest payments and a portion of the principal (cash value) from the Treasury note
- c. The holders of Class 2 will receive \$1MM of the principal of the U. S. Treasury note at maturity if the notes of the Federal National Mortgage Association (FNMA) are downgraded to B or lower by the Standard and Poor's Rating Agency.

- d. Let us assume that the underlying collateral trades at a price of 100 (one hundred cents on the dollar).
- e. Let us conduct a Hambrecht auction for this multi-class security.
- f. Under Hambrecht, we would have to determine, at the outset of the auction, the size of Class 1 and Class 2 (no such limitation exists in the claimed invention). For the sake of argument, let us state that we set the size of Class 1 to \$40MM (million) face value and the size of class 2 to \$10MM (million) face value.
- g. Let us assume that there are 3 bids for Class 1, \$50MM at price of \$0.40 on the dollar, \$25MM at \$0.50 on the dollar and \$25MM at \$0.70 on the dollar. Under Hambrecht, the \$50MM of Class 1 have been effectively sold at a price of \$0.40 on the dollar!
- h. Let us assume that there are 3 bids for Class 2, \$5MM at (\$0.40 on the dollar), \$7MM at (\$0.50 on the dollar), and \$3MM at (\$0.60 on the dollar) Under Hambrecht, the \$10MM of Class 2 would have been effectively sold at a price of (\$0.50 on the dollar)!
- i. The underwriter would have sold/received \$25 MM from the underwriting (\$20MM for Class 1 = \$50MM x .40 on the dollar and \$5MM for Class 2 = \$10MM x \$0.50 on the dollar)
- j. The underwriter would have to pay \$50MM for the underlying collateral (\$50MM x \$ 1.00)
- k. This absurd situation can arise in Hambrecht because:
  - i. Hambrecht does not have any concept of a underlying collateral. The present invention explicitly states that the price of the underlying collateral is considered.
  - ii. In Hambrecht, the bids in one class have no impact on the bids in any other class. Under Hambrecht, the classes are independent of each other. In the instant invention, the bids in one class have direct bearing on the prices in other classes.
  - iii. Any attempt to cure these imperfections would deviate materially from the Dutch auction methodology. The Dutch auction requires that all successful bidders pay the same price for their shares and that the size of the offering is known in advance. Any auction where the bidding or award of bids

depends on the results of any other concurrent auction is not a Dutch auction.

The feature of modifying classes of a multi-class instrument and re-presenting modified class information (e.g., price, principal amount and other characteristics) to investors in view of received bids is a fundamental feature of the presently claimed invention, and is (and has always been) recited, in one way or another, in each of the independent claims in this application.

The following discussion provides, on a claim-by-claim basis, as appropriate, identification of the foregoing feature, as well as other features of the claimed invention that would be missing even if the cited prior art teachings were combined as suggested by the Examiner.

### **Claim 1**

Among other limitations, claim 1 recites:

wherein the structure database stores a structure representative of a plurality of classes of the multi-class instrument, wherein at least two classes of the plurality of classes are different from each other and separately saleable,

wherein the system operates to (i) display class information related, respectively, to each class of the multi-class instrument, (ii) receive bid information, (iii) modify the structure database in response to the bid information and display updated class information, and (iv) notify the underwriter of an amount of underlying collateral to purchase in view of the bid information received,

As neither Hambrecht et al. nor the admitted prior teaches to “modify the structure database in response to bid information and display updated class information” (that is, display class information that is different from what was previously displayed, i.e., offer something different), claim 1 is patentable over the suggested combination of prior art.

**Claim 4**

Claim 4 recites “receiving market information” and the Examiner has equated this with receiving a bid. However, claim 1 expressly recites receiving “bid information,” and thus “market information” must necessarily be different from “bid information” in the context of the claimed invention. Indeed, this is the case. A “bid” is received from bidders, whereas received market information is used to value available collateral in the market place - two completely different things. Thus, the Office Action fails to set forth a *prima facie* case of obviousness with respect to the feature recited in claim 4.

**Claim 5**

Claim 5 depends on claim 4 and recites “wherein the structure database is modified further in view of the prevailing market price of collateral.” The cited portion of Hambrecht et al. (Col. 33, lines 30-45) has nothing to do with modifying any database, let alone a structure database. The cited portion explains how an underwriter will have an option to buy additional shares from an Issuer within 30 days. The cited passage makes no reference to market data, the market price of collateral, collateral or modifying any database. Consequently, the Office Action also fails to set forth a *prima facie* case of obviousness with respect to the feature recited in claim 5.

**Claims 7, 15, 18, 19, 27**

Claims 7, 15, 18, 19 and 27 recite the type of collateral used to collateralize the multi-class instrument. The recited collateral includes, e.g., a contract traded on an organized commodities or securities exchange, stripped mortgage backed security (SMBS), indexed

currency option note (ICON), and broad indexed structured trust offering (BISTRO), among others.

The Office Action makes an unsubstantiated statement that “offering for sale those specific financial instrument [sic] above over the Internet is well known in the art.” Office Action at pages 5-6. Disregarding the accuracy/veracity of that statement, the statement shows that the Examiner fails to understand the distinction between an auction to underwrite a multi-class instrument and an auction to re-sell a single class of an existing multi-class instrument. The differences are obvious: the re-sale of a single class of an existing multi-class instrument does not require the purchase of any underlying collateral, the re-sale of a single class of an existing multi-class instrument does not require bids/offers for any other class of the multi-class instrument, and the re-sale of a single class of an existing multi-class instrument does not require modification or re-allocation of the cash flows from the underlying collateral.

Secondly, the statement also demonstrates that the Examiner fails to understand the distinction between selling the underlying collateral and selling classes based on the cash flows from that collateral. No one disputes that auction markets (including some on the Internet) exist for certain types of the collateral listed in claims 7, 15, 18, 19, and 27. One can even imagine that bonds, mortgages, commercial loans might be offered via auctions on eBay™ or through Hambrecht style Dutch auctions. The invention, however, was never intended to auction the underlying collateral. The buyers of the multi-class instrument have no desire to acquire the underlying collateral. Buyers solely interested in acquiring the underlying collateral would never go through such an elaborate auction as described in this invention.

The participants in the auction want to acquire a financial instrument that is different from the underlying collateral (Claim 18 is very clear about this point). The underlying collateral merely serves as an insurance policy that sufficient cash flow exists to meet obligations owed to any class.

In a multi-class offering, an underwriter must not only sell all the classes, the underwriter is also obligated to acquire the security that collateralizes these classes. The underwriter faces substantial financial risk in that price of the underlying collateral can move during the auction. The underwriter also faces the risk that there is insufficient demand for one or more of the classes being offered. Critical features of the invention significantly reduce these risks to an underwriter offering multi-class instruments. These features are lacking in Hambrecht. Hambrecht has no components that track the market price of the underlying collateral, no mechanism that affords price equalization, and no mechanism that adjusts the classes in response to change in price in other classes or change in price of the underlying collateral.

To summarize, key characteristics of the invention include, *inter alia*, the following:

- 1) An auction that sells two or more classes of financial instruments
- 2) An auction where there is some underlying financial instrument to collateralize or otherwise guarantee the payments to these classes
- 3) An auction where the collateral differs from the financial instruments being offered in the auction
- 4) An auction that continuously monitors the market price of this collateral during the auction period

- 5) An auction that modifies the prices and/or the structure of the classes being offered in response to changes in the market price of the other instrument classes being offered and/or the market price the collateral

In view of the foregoing, the Office Action fails to set forth a *prima facie* case of obviousness for claims 7, 15, 18, 19 and 27.

#### **Claim 8**

Claim 8 recites, even more expressly than claim 1, the fundamental feature of the present invention. Claim 8 recites:

the database stores offer information related to respective classes of the multi-class instrument and at least two classes of the multi-class instrument are different from each other and are separately saleable, the modem receives price and amount bids for at least one of the classes of the multi-class instrument, and the computer system modifies the offer information of at least one of the classes of the multi-class instrument based on received price and amount bids and determines an amount of underlying collateral that an underwriter should purchase to underwrite the classes,

Here, the claim expressly recites that the computer system modifies offer information based on received price and amount bids. Hambrecht et al. utterly fails to describe modifying offers in view of bids. In a modified Hambrecht et al. system, bids received will never result in a change to an offer. A bidder either is eligible to receive shares of stock, or is not. The bidder is never given a different offer, in view of received price and amount bids, to which to respond with a bid.

For at least this reason, claim 8 is also believed to be patentable over the suggested combination of prior art.

**Claim 11**

Claim 11 depends from claim 8, and further elaborates on the fundamental feature of the presently claimed invention that is completely absent from the suggested prior art combination. Claim 11 recites that “price and amount bids are periodically received and the system updates class displays with updated offer information.” In other words, offers are being changed once bids are received. This feature is not disclosed by either Hambrecht et al. or the admitted prior art. Indeed, this is precisely one of the improvements of the present invention over the admitted prior art. In view of the above, claim 11 is also believed to be patentable over the suggested combination of prior art.

**Claims 12 and 20**

With respect to claims 12 and 20, Col. 33, lines 30-45 of Hambrecht et al. is cited again. This passage explains how an underwriter will have an option to buy additional shares from an Issuer within 30 days, which has nothing to do with updating offers. Claim 12 recites that “the” offer information is updated based on market conditions. Thus, claim 12 is directed to a feature of the invention wherein not only are bids used to change a previous offer made to bidders, but so are market conditions. That is, changes to offers may also occur as a result of changes in pricing of the underlying collateral that is available in the open market. Significantly, it is “the” offer that is being updated. This is the same offer that is initially recited in claim 8, from which claim 12 ultimately depends. Thus, unlike Hambrecht et al. or the admitted prior art, the

presently claimed invention modifies offers that have previously been made. Since none of the prior art discloses or suggests this feature of the present invention, claim 12 should also be patentable over the suggested prior art combination. Claim 20 recites similar subject matter.

**Claims 14 and 25**

Claim 14 is an independent claim that still further expressly recites the fundamental feature of the present invention. In this case, three different computers are recited, the first computer belonging to the underwriter, the second to a first bidder, and the third to a second bidder. The first computer (underwriter) stores an initial offer price and amount of one of the classes of a multi-class instrument and displays the same on the second computer. A bid is received in response. This bid is used to modify an initial offer price and amount of another of the classes of the multi-class instrument and display the modified initial offer in the third computer (e.g., second bidder - for a different class of the multi-class instrument). When the first bid is accepted, the amount of collateral necessary to underwrite both classes (the one bid on, and the one still in the offer stage) is calculated. The relevant claim 14 language is:

storing, within a first computer operated by an underwriter, an initial offer price and an initial offer amount related to at least two classes of the multi-class instrument, the at least two classes being different from each other and separately saleable;

displaying, on at least one second computer, the offer price and offer amount of one of the classes;

receiving, at the first computer, at least one bid in response to the initial offer price and offer amount on the at least second computer;

modifying, in the first computer, an initial offer price and initial offer amount of another of the classes of the multi-class instrument based on the bid received in response to the initial offer price and offer amount on the at least one second computer, and displaying on at least a third

computer the initial offer price and offer amount of the another of the classes of the multi-class instrument,

accepting the bid received in response to the initial offer price and offer amount on the at least one second computer; and

indicating to the underwriter an amount of underlying collateral needed to underwrite the bid received in response to the initial offer price and offer amount on the at least one second computer and the initial offer price and offer amount of the another of the classes of the multi-class instrument.

Thus, claim 14 recites that a bid in response to an offer for a first class of a multi-class instrument, causes an initial offer price for a second class to be modified, and that the system calculates the amount of collateral that will be necessary to fund these two different classes ( based on a bid price and an offer price). Nothing like this is described in Hambrecht et al. Once the auction is started in Hambrecht et al., what is being offered never changes. Col. 32, lines 25-35 of Hambrecht et al. (cited in the Office Action in connection with the rejection of claim 14) describes how an initial price for stock is set via negotiations between the Issuer and underwriters. This passage says nothing about how a received BID in one Hambrecht auction causes the initial offer price in another Hambrecht auction to be modified. The cited passage is totally irrelevant to what is recited in claim 14. As such, claim 14 is also believed to be patentable over the suggested combination of prior art. Claim 25 recites similar subject matter and is therefore believed patentable for the same reasons.

### **Claim 17**

Claim 17 is similar to claim 14, but recites that offers for both a first class and a second class are successively displayed on the same remote computer. Nevertheless, here too, a bid on

the first class causes an offer for a second class of a multi-class instrument to be modified. The relevant claim language is:

receiving, at an underwriter's computer, a first bid for the one of the classes of the multi-class instrument and comparing the first bid to the offer information;

modifying, at the underwriter's computer, the offer information with respect to another one of the classes of the multi-class instrument based on the first bid;

displaying, on the remote computer, modified offer information with respect to the another one of the classes;

As the suggested prior art combination fails to disclose or to suggest this fundamental feature of the present invention, claim 17 is patentable over this prior art.

### **Claim 21**

Claim 21 recites:

(b) receiving, at an underwriter's computer, bids in response to the offered plurality of classes;

(c) modifying, at the underwriter's computer, the structure of at least one of the classes of the multi-class instrument in view of the bids; and

(d) re-offering, via the remote computers, at least one of the plurality of classes of the multi-class instrument.

The Office Action cites to Col. 30, lines 50-65 of Hambrecht et al. as allegedly disclosing that a structure of one of the classes of a multi-class instrument is modified in view of bids received. The cited passage does not disclose such a feature. Rather, this passage explains the steps in creating and managing an auction. There is nothing in this passage about modifying anything in view of received bids. This passage simply explains how an administrator might control, at a high level, the implementation of a given auction. It certainly does not disclose how

one Hambrecht auction might effect another Hambrecht auction. Accordingly, claim 21 is believed to be patentable over the cited prior art.

**Claim 30**

Claim 30, perhaps, perfectly summarizes the present invention, which has heretofore been unknown. The relevant portion of claim 30 recites:

conducting, in the system operated by the underwriter, price and amount equalization among the respective classes in view of the investor bids;

As clearly explained in Applicants' previous response, and as further explained during Examiner interviews including the latest interview on November 30, 2004, the present invention provides for receiving bids and, in response to those bids, reallocates the cash flows from the underlying collateral by modifying the structure database and re-presenting different/new classes to investors, while at the same time determining how much underlying collateral will be necessary to underwrite the restructured classes (offerings). Thus, the present invention not only handles several different classes of a multi-class instrument simultaneously, but it also "plays" one class against another to obtain the best price point and terms for each of the classes of the multi-class instrument. Perhaps most important, the present invention provides the ability to form completely new classes, on the fly, by receiving bids and offering new classes in response to the received bids and current price of the underlying collateral. This is precisely what is meant by "conducting price and amount equalization among the respective classes."

The Office Action cites to Col. 11, lines 19-26 of Hambrecht et al. as allegedly teaching this feature. However, this passage merely discloses how to establish an offering price for a

given stock. It says nothing about how the setting of an initial price for one stock might affect the initial (let alone subsequent) price of another stock in view of received bids, which is a central feature of the present invention. Hambrecht cannot link the price of a stock being auctioned to changes in the price of other stocks. Hambrecht also has no concept of collateral. For at least this reason, claim 30 is also believed to be patentable.

**Shkedy (U.S. 6,236,972)**

The Examiner's citing of Shkedy (US 6,236,972) offers yet additional proof of the failure to understand the elementary features of the invention that are clearly outlined in the claims. First, Shkedy deals with secondary offerings of single class instruments, in this case mutual fund shares. Shkedy states:

*Mutual funds sometimes offer different classes of shares, such as Class A, Class B and Class C. Share classes represent ownership in the same mutual fund. The way an individual pays for the fund depends on the share class they own. This allows an investor to choose the sales charge that best suits their investment needs and preferences.*

Shkedy clearly states:

1. 'Share classes represent ownership in the same mutual fund'
2. The classes merely differ in how the mutual fund charges the investor

There is absolutely nothing in Shkedy that indicates that the classes of the mutual fund are different from the mutual fund itself (indeed, Shkedy specifically and unequivocally says the opposite). There is absolutely nothing in Shkedy that states how the prices for one class will affect the prices for the other classes.

Shkedy appears simply to be patent in which the Examiner has found words having the same spelling (in this case 'classes'), but which has no relevancy to claimed invention in any way.

**Summary**

The Examiner appears to have taken the position that since electronic auctioning of shares of stock was known and multi-class instruments were known, it would have been obvious to offer multi-class instruments via an electronic auction. In fact, the only similarity between Hambrecht et al. and the claimed invention is that they are both auction methods for financial instruments. The two auction methods, however, are totally different, as is the structure (single class instruments versus multi-class instruments) of the auctioned items. As demonstrated, it is ludicrous to auction multi-class instruments (as described herein) using the Hambrecht et al. auction methodology.

What the Examiner appears to be missing is that the claimed invention provides a unique and novel system in which dynamic modification of offers for related classes in a given multi-class instrument, which is collateralized with collateral of a different form, is performed in view of bids received for those classes. This fundamental feature is wholly absent from the teachings of the cited prior art. It has been demonstrated above that each of the independent claims recites this fundamental feature.

It has also been demonstrated that the Office Action fails to provide a *prima facie* case of obviousness for several of the dependent claims.

The following table summarizes the several fundamental differences between the presently claimed invention and its inherent features, and the Hambrecht et al. reference:

ITEM	Hambrecht et al.	Sankaran/Chorna
Instrument Type	Equities (Initial Public Offering)	Multi-class instruments (Claims 1, 8, 11, 14)
Bids/Offers	Bids Only	Both bids and offers (Claims 8, 11, 14)
Auctioned Item	Does not change – stock that is to be auctioned never changes during the auction	Changes during the auction. The structure of the classes can change in response to changes in market conditions (e.g., price of underlying collateral) and in response to the receipts of bids and offers (Claims 1,5, 21)
Auction Size	Fixed by underwriter at start of auction	Variable determined by market conditions and actions of those submitting bids and offers (Claim 14)
Underlying collateral	There is no underlying collateral – stocks are auctioned and the exact stock is obtained from the issuer	Underlying collateral supports the multiple classes (Claims 7, 15, 18,27)
Transforming Collateral to Multiple Classes	No such mechanism. Underwriter buys stock from issuer and then re-sells the identical stock via auction	Invention takes collateral such as Treasury or agency notes and creates anything and everything from a credit linked note to a derivative mortgage instrument (Claims 18 and 19) via an auction
Risk	Underwriter bears full risk of auction because auction is impervious to changes in market conditions	Underwriter bears minimal risk because prices and amounts of auctioned items change with respect to market conditions (Claims 4, 5, 14, 20) All classes must be presold before underwriter has to buy any collateral

ITEM	Hambrecht et al.	Sankaran/Chorna
Impact of changes in market conditions on auction	There is no mechanism in Hambrecht to monitor market conditions and to alter the auction due to changes in market conditions	Market conditions (e. g. price of underlying collateral) are explicitly monitored and has material impact on auction (Claims 4, 5,20)
Auction Algorithm	Dutch Auction – all successful bidders pay the same price	Continuous auction with price equalization methodology (Claim 22, 28, 30)
Structure Database	Does not have a structure database	Has a structure database that contains information about classes being auctioned and price of underlying collateral (Claims 1, 5, 8, 21)

\*\*\*\*\*

Serial No.: 09/501,154  
Art Unit: 3628

Attorney's Docket No.: PRI-102  
Page 24

In view of all of the foregoing, Applicants respectfully and strongly urge the Examiner to reconsider the final rejection set forth in the Office Action mailed October 13, 2004, and allow claims 1 and 3-30.

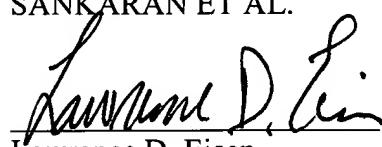
SHAW PITTMAN LLP  
1650 Tysons Boulevard  
McLean, VA 22102  
Tel: 703/770-7900

Date: December 3, 2004

Respectfully submitted,

SANKARAN ET AL.

By:

  
Lawrence D. Eisen

Registration No. 41,009

Customer No. 28970

Document #: 1307807 v.1